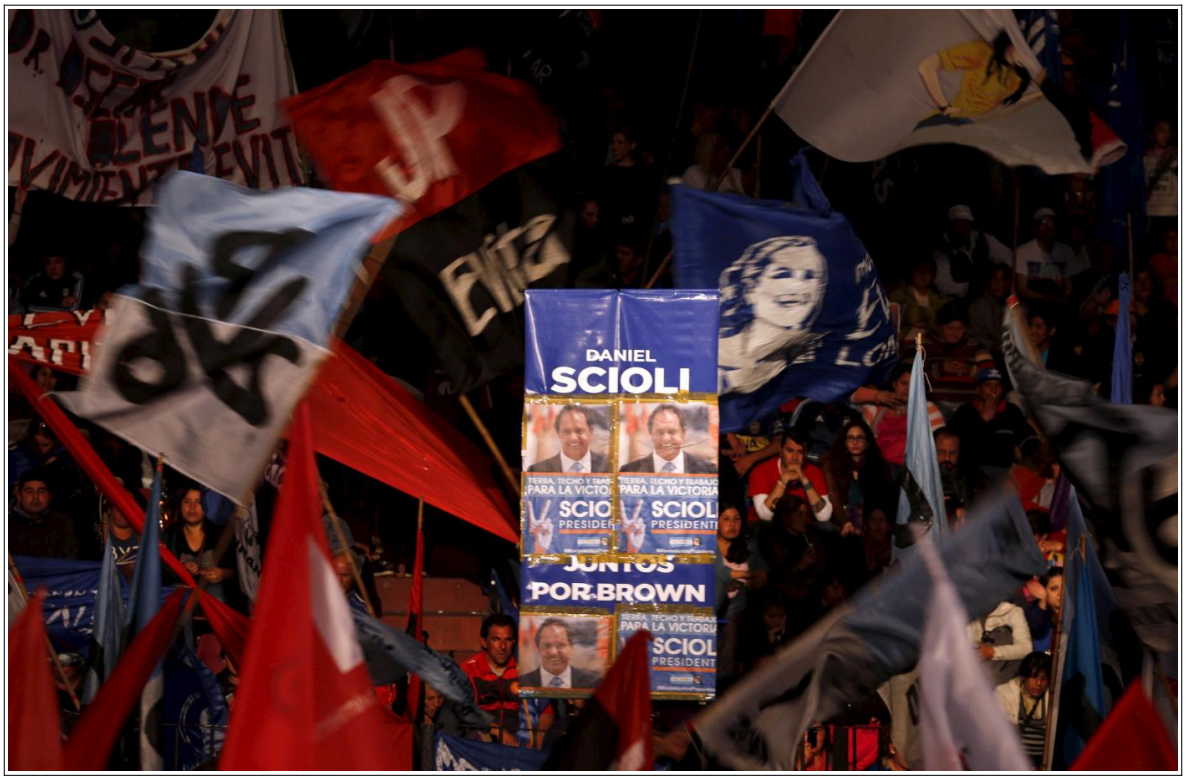
Argentina Leans Right

The Election and What Will Follow

Maria Victoria Murillo

October 31, 2015



MARCOS BRINDICCI / REUTERS

Supporters of Argentina's ruling party candidate Daniel Scioli wait for the candidate outside the party's headquearters in Buenos Aires, October 25, 2015.

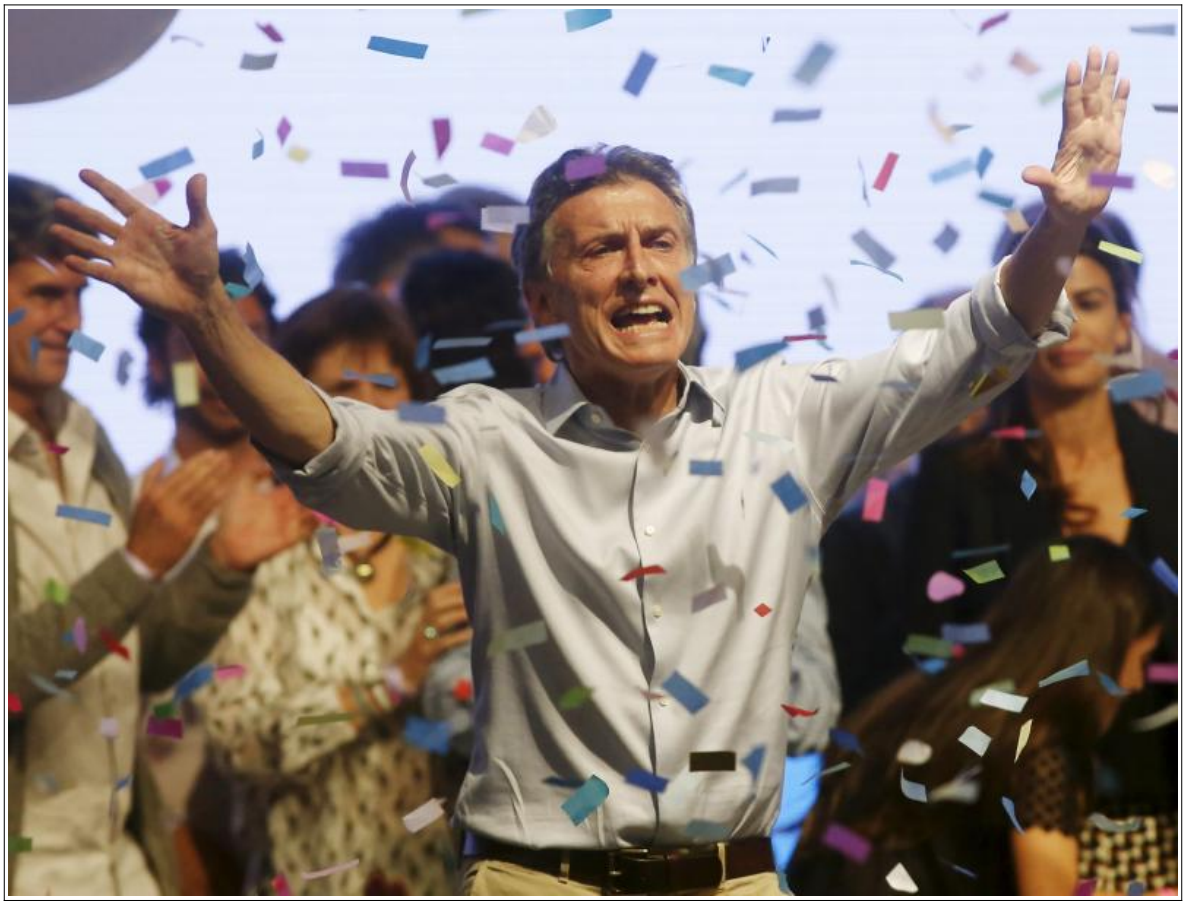
Last week's election in Argentina produced a result that few predicted. Mauricio Macri, the center–right mayor of Buenos Aires, secured almost as many votes as the favorite, Daniel Scioli, the former powerboat racer and governor of the province of Buenos Aires. Scioli, the candidate for the incumbent Front for Victory (FPV) coalition, who the outgoing president, Cristina Fernandez de Kirchner, had reluctantly endorsed, won 36.8 percent of the vote; Macri's coalition, called "Let's Change," won 34.3 percent. To avoid a second round vote, Argentina's constitution requires that one party receive more than 45 percent of the vote (or at least 40 percent with a ten-point lead over the runner-up). Neither achieved

this feat, and so a run-off has been scheduled for November 22.

The run-off vote will be Argentina's first. The decisions of those who voted for the third placed candidate in the first round, Sergio Massa, who won 21 percent of the vote, will be crucial in determining the final result. Massa is part of the same broad ideological group as Scioli, known as Peronism, which is a mix of populism, social justice measures, and economic nationalism. Massa was a former minister in Fernandez de Kirchner's government, but broke with her in 2013. In the first round, Massa divided the Peronists, and his voters may swing the run-off. He has refused to endorse any candidate, but in a television interview he rejected the possibility of voting for Scioli.

ADIOS KIRCHNER

For the past decade and a half, Peronism has defined Argentine politics, first under Nestor Kirchner and then under his wife and successor, Cristina Fernandez de Kirchner.



AGUSTIN MARCARIAN / REUTERS

Mauricio Macri, presidential candidate of Cambiemos (Let's Change), waves to his supporters after the election in Buenos Aires, Argentina, October 25, 2015.

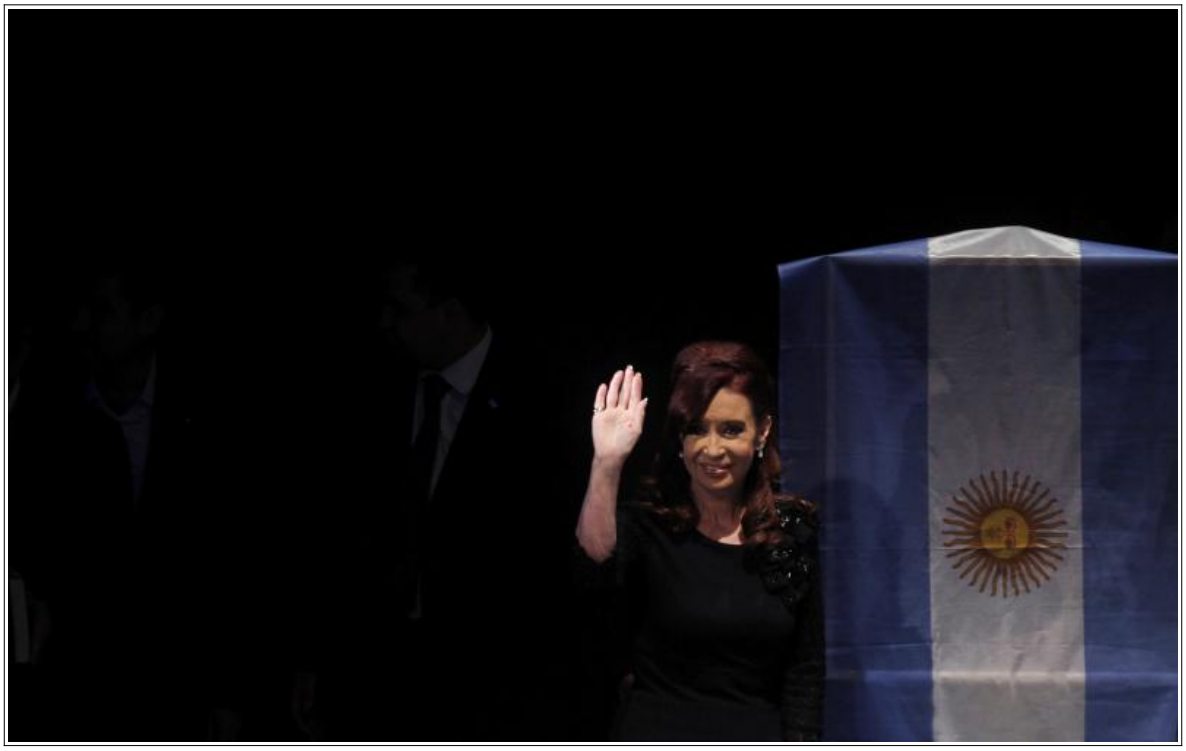
Néstor Kirchner was inaugurated as president in 2003, when Argentina was starting to emerge from its deepest economic crisis since the Great Depression. He stayed in office until 2007, when his wife succeeded him. During this period, the Kirchners took advantage of a global commodity boom: In 2005, they began a drastic restructuring of the sovereign debt on which Argentina had defaulted in 2002 (with a significant haircut to bondholders); expanded redistributive social policies (such as state pensions and cash transfers for children in the informal sector); nationalized the main oil company, two airlines, the water utilities, and pension funds; prosecuted those accused of abusing human rights during the military dictatorship from 1976 to 1983; appointed new Supreme Court justices; and expanded the rights of citizens of different sexual orientations (legalizing gay marriage in 2010, for instance).
The Kirchners often found themselves at odds with international financial markets. Several hedge funds—denounced by Fernandez de Kirchner as "vultures"—that had bought Argentine bonds at fire sale prices, refused to accept Argentina's debt restructuring and continued to demand full repayment. Last year, they won a legal battle in New York that restricted Argentina's access to financial markets.

But Argentina's financial woes are also part of a broader set of growing economic challenges. The commodity boom has ended. The price of Argentina's main export, soybean, fell by 40 percent last year, and low oil prices have deterred the development of new shale oil fields in Patagonia. High energy and transportation subsidies have generated large fiscal deficits. The government has failed to control double-digit inflation by imposing price controls and multiple exchange rates: the official dollar is valued at 9.6 pesos, but the black market price is 16.

The next administration will have to introduce economic reforms, including reducing subsidies, devaluing the peso, and negotiating with Argentina's creditors to improve access to international markets. Moreover, the candidates will have to implement these reforms without losing popular support, and neither candidate will emerge with a clear mandate.

Whoever wins, Argentina will shift to the right. Both Scioli and Macri are to the right of Kirchner—who could not run for reelection but endorsed Scioli as her candidate—and they will both have to rule more pragmatically than Kirchner given the upcoming economic challenges and the need to generate legislative coalitions.

In the next Congress, Scioli's party, the FPV, will have a plurality in the lower house and a majority in the senate. The richest and most populated provinces and largest electoral districts—Buenos Aires, the City of Buenos Aires, Cordoba, Mendoza, and Santa Fe—are all controlled by non-FPV governors, but most of the other provinces are controlled by Peronist governors. To build a coalition, in other words, Macri would have to negotiate with a broad range of partners in the Lower Chamber, including Massa's followers, Peronists outside of the FPV, and even with some who currently identify as FPV Peronist senators (the loyalties of Peronists tend to be fluid). In these negotiations, he will need to make pragmatic concessions to Peronists in poorer provinces, such as providing government funds for districts where public employment often makes up the largest share of the workforce. This pragmatism, moreover, will probably start to emerge now as Macri tries to woo Massa's voters in the final weeks of the campaign.



MARCOS BRINDICCI / REUTERS

Argentina's outgoing President Cristina Fernandez de Kirchner waves at a university inauguration, Buenos Aires, May, 2013.

Meanwhile, Scioli's campaign will promise "governability." He has started to associate Macri with the neoliberal policies of the 1990s, adopted by Peronist President Carlos Menem—without mentioning that Menem was his own political mentor. If Scioli wins, he will have to manage the internal tensions within Peronism. Scioli needs to bring back the Peronists who abandoned him for Massa

while retaining the support of pragmatic Peronist governors in the poor hinterland. He will face opposition in the largest electoral districts—including the Province of Buenos Aires, where Peronists lost control for the first time since 1983. This will force him to be pragmatic despite the tensions it may create with the ideological Kirchnerista faction, who never trusted him.

As the next administration enacts its economic reforms, many may be nostalgic for more affluent times. Kirchner may want to take advantage of such nostalgia to come back in 2019, following in the footsteps of Chilean President Michelle Bachelet, who returned to power four years after her first stint as president. However, the weak electoral showing for Kirchnerist candidates in the first round—including the loss of the Province of Buenos Aires where 37 percent of Argentinian voters reside—gives Scioli an incentive to sideline Fernandez de Kirchner in the party if he wins. And if he loses, the Peronists will blame her, making her potential comeback all the more difficult. For now, then, Argentina bids farewell to Kirchnerism.

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